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RECORDATION NO. 20759 FILED

JUL 14 '97

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RECORDATION NO. 20759-A, B FILED

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RECEIVED  
SURFACE TRANSPORTATION  
BOARD  
JUL 14 9 51 AM '97

July 14, 1997

Mr. Vernon Williams  
Secretary  
Surface Transportation Board  
1925 K Street, N.W.  
Washington, D.C. 20423

Dear Mr. Williams:

Enclosed for recording with the Surface Transportation Board is a Master Lease Agreement dated July 2, 1997, between the following parties:

Lessor: U.S. Bancorp Leasing & Financial  
825 N.E. Multnomah, #800  
Portland, OR 97232

Lessee: Dakota, Minnesota & Eastern Railroad  
Corporation  
P. O. Box 178  
Brookings, SD 57006

Please record this agreement as a primary document.

Also enclosed for recording are Lease Schedule No. 11593.001 and Lease Schedule No. 11593.002. Please record these agreements as secondary documents to the Master Lease Agreement.

The filing fee of \$72 is enclosed. Thank you for your assistance.

Sincerely,

*Mary Ann Oster*

Mary Ann Oster  
Research Consultant

Enclosures

*Counterpart - Mary Ann Oster*



# SCHEDULE TO MASTER LEASE AGREEMENT

RECORDATION NO. 20759-A FILED



JUL 14 '97

9-51 AM

Schedule Number 11593.001

THIS SCHEDULE made as of July 2, 1997, by and between U.S. BANCORP LEASING & FINANCIAL ("Lessor"), having its principal place of business at 825 N.E. Multnomah, Suite 800, Portland, Oregon 97232, and Dakota, Minnesota & Eastern Railroad Corporation ("Lessee"), having its principal place of business located at P.O. Box 178, Brookings, South Dakota 57006, to the Master Lease Agreement dated as of July 2, 1997 between the Lessee and the Lessor (the "Lease"). Capitalized terms used but not defined herein are used with the respective meanings specified in the Lease.

## LESSOR AND LESSEE HEREBY COVENANT AND AGREE AS FOLLOWS:

- (a) The following specified equipment (the "Property") is hereby made and constituted Property for all purposes pursuant to the Lease:

Six (6) SD40, diesel-electric locomotives equipped with dynamic brakes, built by EMD, Unit Reporting Mark & Numbers MKCX 9402, MKCX 9408, MKCX 9409, MKCX 9416 MKCX 9417, MKCX 9419

Each of the above units are complete as equipped including, but not limited to, all attachments, accessories and replacements relating thereto.

- (b) The cost of the Property is \$ [REDACTED];

X Please Initial Here: KVP

- (c) This Schedule shall commence on August 1, 1997 and shall continue for Eighty-Four (84) months thereafter.

- (d) Lessee shall owe Forty-Two (42) basic monthly rental payments in advance each in the amount of \$ [REDACTED] (plus applicable sales/use taxes) followed by Forty-Two (42) basic monthly rental payments in advance each in the amount of \$ [REDACTED] (plus applicable sales/use taxes). The first such payment shall be due on August 1, 1997 and shall continue on the same day of each month thereafter until the end of the term of this Schedule. In addition, Lessee shall pay daily pro rata rental in the amount of \$ [REDACTED] per day (plus applicable sales/use taxes) from the date on which Lessee executes a Delivery and Acceptance Certificate for the Property through July 31, 1997. Such daily pro rata rental shall be due and payable on August 1, 1997.

- (e) The record owner of the premises at which the Property will be installed or stored is: \_\_\_\_\_;

1. **LATE CHARGE.** If any installment of Rent shall not be received by Lessor or Lessor's Assignee within ten (10) days after such amount is due, Lessee shall pay to Lessor a late charge equal to five percent (5.0%) of such overdue amount.

2. **TITLE PASSAGE.** a. As long as no event of default has occurred under the Lease, Lessee shall have the options, to purchase all, but not part, of the Property at the end of Sixty (60) months hereinafter called the "Mid-Term Option Date", and "Mid-Term Option". At the end of the Term or any renewal thereof (hereinafter called the "End of Term Option Date" and "End of Term Option"), Lessee shall have the option to: a) purchase all, but not part, of the Property; or b) renew the lease for a period of twelve (12) months (the "Renewal Period") at a monthly rental payment equal to the fair market rental value of the property; or c) return the Property to Lessor in accordance with the Lease.

b. The above Options may only be exercised by Lessee by written notice of such exercise to Lessor, which notice must be received by Lessor not later than one hundred eighty (180) days prior to: 1) the Mid-Term Option Date to exercise the Mid-Term Option; or 2) the End of Term Option Date to exercise the End of Term Option. Payment of the purchase price must be received by Lessor on or before the Mid-Term Option Date or the End of Term Option Date as appropriate.

c. The Mid-Term Option purchase price for the Property shall be equal to [REDACTED] % of the cost of the Property. The End of Term purchase price for the Property shall be the fair market value of the Property at the time of such exercise as mutually



agreed upon by Lessor and Lessee. If such parties cannot agree thereon after good faith negotiation, the purchase price of the Property shall be the value determined by an appraisal of the Property made by a reputable independent equipment appraiser certified for the type of Property being appraised. The appraiser shall be selected by Lessor and reasonably acceptable to Lessee, and the cost of the appraisal shall be paid by Lessee.

d. The Mid-Term Option purchase price shall only be applicable in the event that the Mid-Term Option is exercised in accordance with its Terms. Such purchase price shall not be deemed to be equal to the "anticipated residual value" as such phrase is used in the Lease.

e. Upon receipt of payment of the purchase price together with any and all applicable sales or other taxes due in connection therewith, and any and all remaining sums or other amounts payable under this Schedule, Lessor shall transfer all its right, title and interest in and to the Property to Lessee. The Property shall be transferred "As Is" and "Where Is" without any express or implied representations or warranties.

f. Should Lessee fail to either return the Property in accordance with the Lease, renew the Lease, or exercise the End of Term Option or the Renewal Period in accordance with its terms, then Lessor, at its sole option, shall have the right to: a) declare the End of Term Option terminated and demand immediate return of the Property; or, b) extend the Term for an additional six (6) months (the "Extended Term"). Should Lessor elect to extend the Term, Lessee shall be irrevocably obligated to remit basic monthly rent for the period beginning on the day immediately succeeding the last day of the original Term (the "Holdover Date") and ending at the end of the sixth (6) month thereafter. A payment of such rent being due on the Holdover Date and on the same day of each consecutive month thereafter. Each payment of such rent shall be in the amount of the basic monthly rent for the last month of the Term in accordance with the provisions of this Schedule. All Lessee's other obligations under the Lease shall remain in full force and effect for so long as Lessee shall continue to possess the Property. Upon the expiration of each Extended Term, if Lessee fails to return the Property in accordance with the Lease, Lessor, at its sole option, shall have the right to: a) permit Lessee to exercise the End of Term Option in accordance with its Terms; b) declare the End of Term Option terminated and demand immediate return of the Property; or, c) extend the Term for an additional six (6) month Extended Term. Any and all rental payments pursuant to this Paragraph shall be deemed for all intents and purposes to be payments for possession and use of the Property after the expiration of the Term, and shall not be credited to any other obligation of Lessee to Lessor. Lessor's invoicing and/or accepting any such payment shall not give rise to any right, title or interest of Lessee other than to possession and use of the Property during the period to which such rent applies in accordance with this Paragraph. The aforesaid right to charge Lessee rent for possession and use of the Property is not in limitation or derogation of any of Lessor's rights pursuant to the Lease.

### **3. MAINTENANCE, USE, AND RETURN PROVISIONS.**

The Lessee, at its own expense and risk shall throughout the Lease Term maintain, and repair so as to keep the Locomotives in good operating condition under Interchange Rules, as defined by the Association of American Railroads (AAR); ordinary wear and tear excepted, and in accordance with maintenance standards at least equal to the industry standards of maintenance for similar Locomotives operating on the lines of Class I Railroads and in the manner and in the same condition as Lessee would, in the prudent management of its own business, maintain and repair similar equipment owned by it at such time (or operated by the Lessee at such time under net leases with an original term of 15 years or less) so that such Locomotives will remain (i) in as good operating condition for the commodities carried as when originally delivered (ordinary wear and tear excepted), (ii) mechanically suitable for interchange generally by the Lessee and (iv) eligible under all manufacturer's warranties. The Lessee agrees that it will not discriminate against any Locomotive (as compared to other similar Locomotives owned or operated by the Lessee) with respect to its use, operation or maintenance in contemplation of the expiration or termination of this Lease. Interchange condition to include the replacement of missing materials and the correction of wrong repairs and items listed in the Interchange Rules as cause for renewal and cause for attention; free of Rule 95 damage. Any item that is damaged or worn beyond what is considered to be normal by the original component manufacturer shall be deemed to have been damaged beyond normal wear and tear and shall be replaced at the Lessee's expense. Wheels shall be replaced if worn past AAR regulations.

Lessee shall return all records including the then current AAR UMLER format for hard copy records. Lessee shall continue to allow the Locomotives to be registered in UMLER until the Locomotives are remarked.

Maintenance means all repairs, maintenance, replacement of parts and mandated modifications as are needed to keep any Locomotive in good working order and repair, suitable for loading and Interchange and in accordance with Interchange Rules, and the rules of any other applicable regulatory body.



Interchange Rules means collectively the Field Manual of the AAR Interchange Rules and the Office Manual of the AAR Interchange Rules. References herein to the Interchange Rules provide performance standards and criteria for the condition of the Locomotives and their maintenance and repair.

One hundred eighty (180) days prior to lease expiration, Lessee shall provide written notification of intent to return the Locomotives, and demonstrate that the Locomotives can perform at its performance specifications according to the original manufacturer. An independent certified technician chosen by Lessor shall demonstrate the performance of the Locomotives and the physical condition as defined herein. If it is determined that improvements under the manufacturer's performance standards are needed, Lessee shall cause such improvements to be made prior to the return of the Locomotives. Lessee shall provide, at Lessor's request, up to one hundred eighty (180) days free storage of the equipment at the location Lessor designates.

4. **DEPRECIATION.** Lessor will be entitled to modified accelerated cost recovery depreciation based on 100% of Property Cost using the 200% declining balance method, switching to straight line, for seven (7) year Property, and zero salvage value.

IN WITNESS WHEREOF, the Lessor and the Lessee have each caused this Schedule to be duly executed as of the day and year first above written.

Dakota, Minnesota & Eastern Railroad Corporation  
(LESSEE)

By: Kurt Feaster  
Kurt Feaster, Chief Financial Officer

U.S. Bancorp Leasing & Financial  
(LESSOR)

By: [Signature]  
An Authorized Officer Thereof

(All signatures must be notarized in the appropriate space below)  
CORPORATE ACKNOWLEDGMENT

STATE OF South Dakota  
County of Brookings

July 10, 1997

Personally appeared Kurt Feaster, and  
who, being sworn, stated  
that he/she, the said Chief Financial Officer is a Officer  
and he/she, the said  
is a  
of corporation and acknowledged  
that this Document was voluntarily signed in behalf of  
the corporation by Authority of its Board Directors.

Before me: Lisa L. Rasmussen  
Lisa L. Rasmussen  
Notary Public for South Dakota  
Oct 16, 2002  
My commission expires:

CORPORATE ACKNOWLEDGMENT

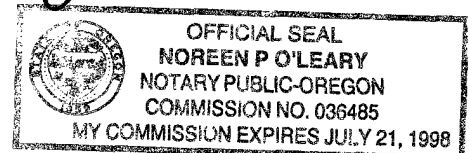
STATE OF Oregon  
County of Multnomah

July 11, 1997

Personally appeared Clifford Swan and  
who, being sworn, stated  
that he/she, the said Authorized Officer is a  
and he/she, the said  
is a AVP  
of corporation and acknowledged  
that this Document was voluntarily signed in behalf of  
the corporation by Authority of its Board Directors.

Before me:

Noreen P. O'Leary  
Notary Public for  
7-21-98  
My commission expires:



Address for All Notices:  
U. S. BANCORP LEASING & FINANCIAL  
825 N.E. Multnomah, Suite 800  
Portland, Oregon 97232

Machine Tool Finance Group  
(800) 225-8029 (503) 797-0222

General Equipment Group  
(800) 253-3468 (503) 797-0200